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GAIN Report

Global Agricultural Information Network

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Russian Federation

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Farmers and Flour Millers Agreed on Indicative Minimum Wheat Prices

Report Categories:

Grain and Feed

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Report Highlights:

The Russian Union of Grain Producers and Unions of Flour Millers and Bakers agreed on the minimum prices of milling wheat through July 2011. It was agreed that wheat prices should cover farmers' cost of production and provide for stable supply of important bakery products at affordable prices.

General Information:

On February 15, 2011, the Russian Union of Flour Millers, the Russian Union of Bakers, and the National Union of Grain Producers have signed an agreement on the minimum prices of milling wheat through July 1, 2011. The signing took place at the 2nd Congress of the National Union of Grain Producers on February 15, 2011, and was blessed by the Russian Minister of Agriculture Yelena Skrynnik. The parties agreed that the members of their unions will respect the negotiated minimum prices which cover producer's average cost of production. These prices are different for different Russian regions:

- In the Central Federal District the indicative minimum price for milling wheat Class 3 is 6,000 rubles (\$200) per metric ton (MT), and for milling wheat Class 4 is 5,700 rubles (\$190) per MT. According to market analyst^[i], as of mid February in the Central Federal District the market, EXW, price, of milling wheat Class 3 was 7,700 rubles (\$257), and the market price of milling wheat Class 4 was 7,450 rubles (\$248) per metric ton;
- In the North-Western Federal District the indicative price for milling wheat Class 3 is 6,500 rubles (\$217), and for milling wheat Class 4 is 6,200 rubles (\$207) per MT;
- In the North-Caucasian Federal District the indicative prices for milling wheat Class 3 is 4,900 rubles (\$163) per MT, and for Class 4 – 4,500 rubles (\$150) per MT;
- In the Southern Federal District the indicative prices for milling wheat Class 3 and Class 4 are 5,000 rubles (\$167) and 4,500 rubles (\$150) per MT respectively. In the Southern and the North Caucasian federal districts the market price, EXW, of Class 3 wheat was 6,630 rubles (\$220), and the market price of Class 4 wheat was 6,275 rubles (\$209) per MT;
- In the Volga Valley Federal District the minimum indicative prices are 5,800 rubles (\$193) per MT for milling wheat Class 3, and 5,500 rubles (\$183) per MT for Class 4 wheat. The market prices were 7,930 rubles (\$264) and 7,715 rubles (\$257) per metric ton respectively;
- In the Ural Federal District the minimum indicative price is 5,500 rubles (\$183) per MT for Class 3 wheat, and 5,000 rubles (\$166) per Mt of Class 4 wheat. The market prices were 8,590 rubles (\$286) for Class 3 milling wheat, and 8,340 rubles (\$278) for Class 4 milling wheat;
- In the Siberian Federal District the minimum indicative prices are 5,000 rubles (\$166) per MT for milling wheat Class 3, and 4,500 rubles (\$150) – for milling wheat Class 4. The market prices in the West Siberia were 7,485 rubles (\$250) for milling wheat Class 3, and 6,785 rubles (\$226) for Class 4 milling wheat.

The current market prices are significantly higher than the indicative minimums, especially in provinces that suffered from drought, and in Siberia, which this year is the major supplier of high quality milling wheat to all other Russian regions. Despite the high market prices and shortage of high quality milling wheat, the Federal Government has instructed provincial and municipal administrations to curb local prices of bread and staple bakery products. Flour-millers and bakers are located primarily in or close to municipal centers, far from grain producing regions. High grain prices, coupled with the increasing transportation fees, and cost of energy significantly increased expenses of flour-millers and bakers, and decreased incentives to develop these industries. Therefore the millers supported the minimum prices in order to put downward pressure on negotiating prices with grain producers. On the other hand, those grain producers, which do not have developed channels of marketing their grain (Siberia), or suffered from the export ban (Southern European Russia), will have a guarantee that the grain price will not plummet by the end of the marketing year.

Yelena Skrynnik, Agricultural Minister hopes that this agreement will pave the way to continuous cooperation between the three unions. She said: "This agreement establishes minimum grain prices for the future crop. It's important for all three parties; it is an important signal to the market" ^[ii].

This is the second agreement on prices between the unions of producers and processors. The first agreement on milk prices between milk producers and dairy industry was concluded in spring 2010 (for more information see GAIN RS1024 _ Dairy and Products _ Minimum Prices Set for Raw Milk _ Moscow _ Russian Federation _ 4/30/2010). However, the effect of this agreement is difficult to estimate, since milk and dairy prices have been increasing since then due to drought-caused decreases in dairy herds, milk yields, and domestic supply of milk and dairy products.

The inter-industry price agreement might violate Russian Federal Anti-monopoly legislature. However, the precedent with the “arranged” milk prices and the government’s concern regarding the domestic grain supply will likely trump competition concerns.

The Union of Grain Producers have started working out production targets for grain producers in different federal districts based on the forecast consumption of specific types of grain in these districts. The first estimates will be made by the beginning of MY 2011. However, any balance based plan could only work if Russia continues its isolation from the world grain market.

^[i] Source for market prices is ProZerno

^[ii] The press release is on the MinAg’s web-site: <http://www.mcx.ru/news/news/show/4449.78.htm>